

BILL # SB 1506

TITLE: tax credit; business health insurance

SPONSOR: Leff

STATUS: As Introduced

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FISCAL ANALYSIS

Description

The bill creates a \$250 per employee tax credit for small businesses employing between 2 and 10 persons which pay 50% or more of their employees' health insurance premiums and have at least a 75% participation rate by employees in their health plan.

Estimated Impact

The bill is estimated to result in a \$(10.6) million General Fund revenue loss for tax year 2008 if all currently qualifying small businesses claim the credit for all of their currently eligible employees. The revenue loss would be greater if the \$250 credit induces more employers to offer health care coverage.

The Department of Revenue estimates that the bill would result in a General Fund loss of \$(12.5) million.

Analysis

Most of the statistical data for the cost estimates came from two sources: (1) a report done by the Agency for Healthcare Research and Quality, which is an agency of the U.S. Department of Health and Human Services (USDHHS) and (2) "Employer Health Benefits: 2006 Annual Survey" by the Kaiser Family Foundation. As data was not readily available for businesses employing 2 to 10 employees, the data group with 1 to 9 employees was assumed to be roughly equivalent.

The \$10.6 million is based on businesses receiving the \$250 tax credit for 42,400 eligible employees. Under SB 1506, employers must meet the following requirements in order to claim the \$250 per employee tax credit:

- 1) Employ between 2 and 10 persons – standard employee counts only reflect businesses with 1 to 9 employees. This 1 to 9 group was used as a rough estimate for the 2 to 10 group. According to the U.S. Census Bureau's "Statistics of U.S. Businesses: 2004," Arizona had 202,000 (or 10% out of its 2,044,100) employees working in private businesses employing less than 10 people.
- 2) Provide health insurance to employees – the Kaiser report states that in Arizona in 2004, 33.2% or 67,100 employees worked for businesses with fewer than 10 employees that offered health insurance benefits. This requirement excludes 134,900 employees of small businesses that are not offered health insurance.
- 3) Have a 75% participation rate by employees – the Kaiser report says that businesses employing 3 to 24 people have an average 79% participation rate in their health insurance plans. Since 79% is only the average participation rate, some companies will fall below the 75% benchmark. As a result, this analysis assumed that 80% of qualifying businesses would have at least a 75% participation rate in their health plans. This requirement is estimated to exclude 24,700 of the 67,100 employees in businesses with health insurance.
- 4) Pay at least 50% of employees' premiums – the USDHHS report indicates that in 2004, employers with less than 10 workers in Arizona were charged an average annual family medical premium of \$9,400. Employers paid on average about 75% of the \$9,400 total cost (\$7,000) with employees paying the remaining 25%. Based on this statistic, it was assumed that this requirement would not exclude any employees working in small businesses that offered health insurance.

Based on an average employer cost of \$7,000 for family health insurance premium costs, a \$250 tax credit per employee would reduce employer medical premium costs by about 4%. In comparison, a more "bare bones" health policy for a single individual could cost only \$2,500. If an employer paid 50% of premiums as required, this would be an annual employer cost

of \$1,250. The \$250 tax credit would represent a 20% subsidy. It is unknown how much a subsidy of 4% to 20% would induce employers to begin offering coverage. As a result, this analysis has not adjusted participation for growth in eligible employees. Any increase in qualifying coverage would increase the costs of this proposal at an annual cost of \$250 per newly qualifying employee.

Local Government Impact

None.

2/16/07